United States Senate Budget Committee

JEFF SESSIONS | Ranking Member

Fact Sheet On CBO Long-Term Outlook: Worsening Debt Imperils Economy

CBO now projects that debt held by the public would exceed 100 percent GDP by 2021 under current policies (the alternative fiscal scenario). **This is a 10 percentage point increase in debt relative to CBO's projections of only one year ago**.

- What's more, debt held by the public is only a fraction of total federal debt, which is nearly 100 percent of GDP already. Economists Rogoff and Reinhart have found gross debt levels above 90 percent of GDP slow economic growth by around one percentage point per year. **Their research is buttressed by CBO's new report, which estimates that higher levels of debt will shrink average annual economic growth by 0.9 percentage point**.

CBO further asserts that "[g]rowing debt also would increase the probability of a **sudden fiscal crisis**, during which investors would lose confidence in the government's ability to manage its budget and the government would thereby lose its ability to borrow at affordable rates." (p. xii, emphasis added)

Spending is the primary cause of the long-term fiscal imbalance. CBO's report states that federal outlays will increase "sharply relative to GDP in coming decades under any plausible assumptions about future trends in the economy, demographics, and health care costs." (p. 1)

- Federal health care spending will increase by 50 percent as a share of GDP over the next 25 years.
- Social Security spending will increase by 20 percent as a share of GDP over that period.

The report supports the conclusion that it is better to close the fiscal imbalance by spending cuts rather than tax increases, a finding demonstrated in a recent Budget Committee Republican staff white paper. CBO estimates "a positive effect on saving and investment from the lower marginal tax rates on capital (relative to those assumed for the economic benchmark) in the alternative fiscal scenario. That positive effect on investment tends to increase the capital stock, output, and pretax wages compared with what they would be without the effect." (p. 29)

- Keeping current tax rates is a positive for the U.S. economy. Policymakers should therefore cut spending, not increase taxes, in order to get our debt under control

Postponing action to reduce the fiscal imbalance "would substantially increase the size of the policy adjustments needed to put the budget on a sustainable course," (p. 15) and those policy adjustments would likely be more difficult to carry out. "Waiting to address the long-term budgetary imbalance and allowing debt to mount in the meantime **would make future generations worse off**, although some current generations could benefit from such a delay." (p.22, emphasis added) As Ranking Member Sessions has stated, Congress must make "necessary choices today to spare our children from painful choices tomorrow."

Fast Facts—By 2035…

- Deficits would equal 16 percent of GDP
- Federal debt would reach approximately 200 percent of GDP[1]
- Excluding interest payments on the debt, federal spending would increase from the 40-year average of 18.5 percent to 25 percent of GDP
- Interest costs would reach 9 percent of GDP, more than the U.S. currently spends on Social Security or Medicare
- Total federal spending as a share of GDP would reach a peacetime high of 34 percent
- The projected growth in non-interest spending stems exclusively from "increases in mandatory spending, particularly in spending for the government's major health care programs" (p. 7)
- 36 percent of the growth in spending on mandatory health programs and Social Security is due to excess cost grow in health care (as opposed to the aging of the population)

[1] Debt is projected to exceed 200 percent of GDP by 2037, but CBO's projections are conservative because they do not incorporate the "negative effects that additional federal debt would have on the economy." (p. xi)